

**AUDIT OF THE AWARD AND ADMINISTRATION  
OF DIRM SERVICE CONTRACTS**

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Audit Report No. 99-041  
September 30, 1999



**OFFICE OF AUDITS**

**OFFICE OF INSPECTOR GENERAL**

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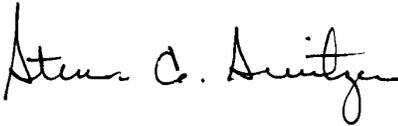
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**DATE:** September 30, 1999

**MEMORANDUM TO:** Donald C. Demitros, Director  
Division of Information Resources Management and  
Chief Information Officer

Arleas Upton Kea, Director  
Division of Administration



**FROM:** Steven A. Switzer  
Deputy Inspector General

**SUBJECT:** Report Entitled *Audit of the Award and Administration of DIRM Service Contracts* (Audit Report No. 99-041)

The Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG) has completed an audit of the award and administration of DIRM service contracts. The objectives were to evaluate procurement and oversight management practices relating to DIRM's service contracts. Our review focused on DIRM service contracts because of the increasingly significant investment that FDIC has made in the use of these resources over the past several years. As of October 19, 1998, the total value of open DIRM service contracts totaled over \$352 million. This report discusses opportunities for improving internal controls and procurement practices regarding contract solicitation, award, and oversight management. The report also discusses opportunities to improve Statements of Work (SOW) that are included in contracts and corporate practices relative to background checks for contract employees. This report contains eleven recommendations for improvements, all of which are directed jointly or separately to the Directors of DIRM and the Division of Administration (DOA).

## **BACKGROUND**

One of DIRM's primary responsibilities is to develop and maintain an Information Technology (IT) program that is responsive to the Corporation's business needs and long term strategies. IT program activities include the development, operation, enhancement and maintenance of FDIC's automated information systems. Effective and efficient acquisition of IT resources is critical to the success of the FDIC's IT program. DIRM has the authority and responsibility for coordinating the acquisition of IT resources and for the oversight of IT-related contracts. These resources include Personal Computer (PC)/Local Area Network (LAN) equipment, packaged software and maintenance, data center management, development of new application systems, maintenance of existing application systems, and FDIC's technical infrastructure.

Prior to the merger of the Resolution Trust Corporation (RTC) and the FDIC in 1996, FDIC's information resources management function relied, to a large extent, on FDIC employees to satisfy the Corporation's IT needs. Conversely, the RTC relied on the use of contractors to address IT requirements. Since its merger with the RTC, the FDIC has placed increasingly greater reliance on contractors to satisfy the Corporation's IT requirements.

Between January 1, 1996 and December 31, 1998, FDIC paid over \$283 million to DIRM service contractors. This figure is exclusive of payments related to the acquisition of IT goods, including hardware and commercial off-the-shelf software products. Expenditures to DIRM service contractors have increased significantly over the past three years. Payments to DIRM service contractors were \$74 million in 1996, \$90 million in 1997, and over \$118 million in 1998.

DOA's Acquisition and Corporate Services Branch (ACSB) is responsible for soliciting and awarding DIRM service contracts. In 1997, ACSB began to streamline the procurement process for the acquisition of professional services to support FDIC's IT requirements. DOA began using contractors registered under the General Services Administration's (GSA) Federal Supply Service IT Multiple Award Schedule (MAS) program. The GSA's IT MAS program provides Federal agencies with a simplified process for obtaining commonly used commercial supplies and services at prices associated with volume buying.

The GSA's IT MAS program establishes indefinite delivery contracts with commercial firms to provide supplies and services at stated prices for given periods of time. All Federal agencies are allowed to use GSA's IT MAS program. Ordering offices issue delivery orders directly with the schedule contractors for the required supplies and services. The GSA's IT MAS program is considered streamlined because of the reduced amount of time that is needed by agencies to acquire the goods and services available through established MAS contracts.

In addition to the reduced time to complete the procurement process, orders placed with MAS contractors are considered to satisfy the requirement for full and open competition, required through the Federal Acquisition Regulations (FAR). In fact, GSA regulations do not require agencies placing orders under GSA's MAS contracts to seek further competition, synopsise the requirement, make a separate determination of fair and reasonable pricing, or consider small business set-asides.

The procedures followed for placing orders against the GSA's MAS contracts are dependent on the amount of the award. For example, ordering offices can place orders directly with any MAS contractor when the value of the award is equal to or below the micro-purchase threshold (\$2,500). When the value of the order is greater than the micro-purchase threshold, but does not exceed the maximum order threshold, GSA requires the order to be placed with the schedule contractor that provides the best value. The maximum order threshold is generally not greater than \$500,000 and can be less. Ordering agencies can determine best value by reviewing catalogs/pricelists of at least three schedule contractors.

When the value of an order exceeds the maximum order threshold of a MAS contract, the ordering agency must determine the best value and request price reductions. The maximum order threshold

is established for each MAS contract and represents the point where it is advantageous for the ordering office to seek a price reduction because of the quantity of services requested. After price reductions have been sought, the agency can place the order with the schedule contractor that provides the best value and results in the lowest overall cost alternative, even if contractors do not offer price reductions.

ACSB implemented policies that require the FDIC to satisfy requirements beyond what the FAR requires of other government agencies that use GSA's MAS contracts. The FDIC requires a limited form of competition for FDIC MAS contracts that exceed certain dollar thresholds. For example, FDIC contract awards to MAS contractors that are greater than \$100,000 but less than the MAS maximum order threshold, require the contracting officer to actively seek the best price by performing price comparisons between at least three MAS contractors offering the required product or service. Technical evaluations of contractors can also be performed, but are optional for contracts in this category.

ACSB policy also requires written proposals from at least three contractors for requirements that exceeded the maximum order threshold. Technical evaluations of proposals are also required. FDIC's solicitations and contacts with prospective bidders encouraged the offering of additional discounts from MAS contract prices. However, because MAS contracts are considered to satisfy competition requirements, they are not subject to all APM requirements. For example, in addition to the limited forms of competition described above, MAS contracts are not currently subject to the same solicitation periods as some other procurement actions, and proposals in response to MAS solicitations are not currently required to be evaluated by three-person Technical Evaluation Panels (TEP).

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of this audit were to determine whether (1) DIRM service contracts were executed in accordance with FDIC policies and procedures, (2) internal controls were designed to ensure that FDIC's requirements were satisfied in a cost-effective manner, and (3) administrative controls were designed to ensure that contractor billings were properly supported and within the scope of the contract.

To accomplish our audit objectives, we interviewed contract specialists, oversight managers (OMs), technical monitors and others involved in the contract award and administration process to discuss internal control plans, supervision, and contract monitoring. We reviewed contract files maintained by both DIRM and DOA to assess the adequacy of file documentation, the accuracy of management information being summarized and reported, the level of supervisory review by contracting officers, and the monitoring of contractors' performance by OMs. We performed detailed reviews of vendor invoices for accuracy and supporting documentation. We reviewed and evaluated documentation supporting the technical evaluation of contractor proposals and selection recommendation reports. We also reviewed relevant regulations, reports, and policy memorandums.

The audit was conducted in accordance with generally accepted government auditing standards. We

conducted our fieldwork at DOA and DIRM headquarters offices between February 1998 and February 1999. We judgmentally selected 19 DIRM service contracts awarded between March 1997 and April 1998 that exceeded \$1 million in value. The 19 contracts that we reviewed fell into three broad categories. Nine contracts, totaling \$42.5 million, provided system development, enhancement, and maintenance support services (systems development life cycle (SDLC) contracts). Five contracts, totaling \$39.5 million, provided operational and administration support services for FDIC's LAN, telecommunications, and data center (operational support contracts). The remaining five contracts, valued at \$14.1 million, provided software support and other services, including Year 2000 and internet/extranet support services (software support contracts).

At the time of our review, 291 DIRM service contracts were open at headquarters. The 19 contracts selected totaled \$96.2 million and represented approximately 31 percent of the \$314.2 million in headquarters DIRM service contracts that were listed as open as of July 14, 1998.

We designed our selection approach to provide us with the opportunity to evaluate more current procurement practices and, therefore, excluded awards made before March 1997. In early 1997, DOA implemented a streamlined approach, using the GSA's MAS contracts to satisfy most FDIC IT services requirements. Accordingly, 15 of the contracts that we selected for evaluation were with GSA MAS contractors. Four contracts were competitive procurements that were awarded to contractors that were not under GSA's MAS program. Our sample included contracts for a variety of services including support for the data center, systems development, maintenance of existing systems, telecommunications and servers, and help desk functions.

## **RESULTS OF AUDIT**

Our audit identified opportunities for FDIC to strengthen controls to help ensure that DIRM service contract requirements are satisfied in a cost-effective manner. Contract statements of work should more fully define or provide details on the tasks, requirements, and deliverables expected of the successful offerors. Additionally, task assignments after award could be used more effectively to describe the services required, deliverables, costs, and delivery dates. Better specifying the Corporation's contracting needs would serve to lessen FDIC's reliance on contractors to define contract requirements and deliverables through project work plans that they produce after the contract is awarded. Other added cost controls would be for DOA to clarify its existing policy related to contract modifications that increase the value and scope of contracts after award and develop the ability to monitor expenditure authority through the FDIC's Purchase Order System (POS) when the value of contracts varies from limits established in the APM. The Corporation also needs to better ensure that contracts are properly classified and closed out timely and background investigation checks are performed for DIRM contractors.

The Corporation executed the 19 contracts in our sample in accordance with the policies and procedures contained in the Acquisition Policy Manual (APM) and, in the case of large, complex IT MAS contracts, even went beyond the procurement policies and procedures that other federal agencies are required to follow. However, to improve competition for acquiring large service contracts, it would be in the Corporation's best interest to take existing controls a step further.

We are suggesting ways to increase the numbers of bidders solicited; involve a source selection official; expand membership on TEPs; establish more reasonable timeframes for submission of bids; and seek alternative methods of encouraging Minority and Women Owned Business (MWOB) participation. Taken together, these actions should improve competition and will better provide the control of segregation of responsibilities between the Office of Contracts and the program office during key phases of contract award and administration.

With respect to controls over contractor billings, our review of a selected invoice for each of the 19 contracts in our sample showed that invoices were properly supported and services were within the scope of the contract.

## **IMPROVING CONTROLS RELATING TO DIRM SERVICE CONTRACTS**

FDIC's contract statements of work and task assignments issued after contract award can be improved to more fully define the tasks, requirements, costs, delivery dates, and deliverables expected of successful offerors. Further, task assignments issued after award could be used more effectively to describe the services required, deliverables, costs, and delivery dates. By better specifying its contracting needs, the Corporation could reduce its reliance on contractors to define contract requirements and deliverables through project work plans produced after contract award.

DOA can improve cost controls by clarifying its policy regarding contract modifications that increase the value and scope of contracts after award and developing the ability to monitor expenditure authority when contract amounts vary beyond limits established in the APM. The Corporation also needs to improve the accuracy of contract classifications, ensure that contracts are closed out in a timely manner, and ensure that background investigation checks are performed for DIRM contractors.

### **Improving Contract Statements of Work**

The FDIC did not clearly define its requirements or deliverables for 13 of the 19 contracts that we reviewed. In addition, 11 of the 19 contracts contained language regarding the use of task assignments to define requirements and deliverables subsequent to contract award. However, only two of the 11 contracts used task assignments to effectively control contractor activities. Further, the Corporation relied on its contractors to define contract requirements and deliverables through project work plans that contractors produced after contract award. The FDIC's procurement policies and basic internal control principles are intended to ensure that the Corporation effectively defines its requirements and deliverables.

The FDIC's APM, Section 4.E.3, places responsibility for preparing the contract SOW with the program office. According to the manual, key items to be taken into account and conveyed through the SOW include: (1) the nature of the services and the minimum standards that must be met, (2) qualifications necessary to perform the work, (3) the deliverables and the scheduled milestones for their delivery, and (4) standards by which the contractor's performance will be measured.

The 13 contracts referenced above did not contain a clear and complete definition of the services

required of the contractor, deliverables and the scheduled milestones for delivery, or standards by which the contractor's performance would be measured. Absent those elements, it becomes more difficult for the FDIC to measure the performance of contractors. The use of task assignments could have resulted in a compensating control on contracts that did not contain an adequate definition of requirements, deliverables, and performance expectations. However, OMs' use of task assignments did not provide the compensating controls needed for such assurance.

Eleven contracts contained language stating that work would be assigned by the OM using task assignments after contract award. Eight of the eleven contracts stated that task assignments would include a description of the services, deliverables and dates, performance period, and a not-to-exceed cost. While seven of the eleven contracts used task assignments or System Change Requests, only two of the seven task assignments or System Change Requests clearly described services required, deliverables, delivery dates, performance period, and cost. For example, one of the more clear and definitive task assignments stated that the contractor was to "...provide a review and validation of existing FDIC application and COTS software inventories, completed application software assessments, and vendor letters used for Year 2000 compliance inquiries." This task assignment also cited deliverables such as a Mainframe Application Source Assessment Plan with a due date of November 1, 1997 at a cost of \$150,339.20. However, this level of detail was clearly lacking in the other five task assignments in our sample.

Nine of the 19 contracts we reviewed related to SDLC services. Requirements and tasks for these contracts were general, somewhat vague, and often similar. The 9 SOWs did not identify the systems that would be addressed, describe the deliverables, or provide specifics regarding priorities or timeframes. Rather, the SOWs listed a variety of systems that could be included within the contract's scope and a listing of SDLC products that could be included as potential deliverables.

In summary, the requirements and deliverables contained in 13 of the 19 contracts we reviewed did not provide the level of detail needed for FDIC to monitor contractor performance or to establish adequate accountability controls over the efficient and effective consumption of IT resources.

We recognize that not all user requirements can be defined in detail in advance, especially those requirements related to maintenance of existing application systems, ad hoc reporting, and LAN and telecommunications/client support services. When it is not possible to define detailed requirements and deliverables prior to solicitation and award, task assignments can be used to more effectively describe the services required, deliverables and delivery dates, performance period, and cost.

Absent clearly defined requirements and deliverables in SOWs or task assignments, the FDIC tended to rely on contractors to define its requirements. We believe this occurred, in part, because DOA did not require DIRM and program offices to prepare more detailed SOWs that included detailed requirements and deliverables. FDIC could not ensure that DIRM OMs used task assignments effectively because the Corporation had not implemented controls to ensure their effective use.

Contract OMs received periodic status reports from and met with contractors for which they had oversight responsibility. However, the status reports were brief statements on activities during the reporting periods. Some reports also contained periodic and cumulative resource consumption data.

However, the status reports did not contain specific information regarding progress toward completion of the project. The absence of such progress information, coupled with the lack of clear requirements and deliverables, reduced the FDIC's ability to ensure accountability by the contractor and to measure performance.

The need to improve the SOW sections in DIRM service contracts was reported in a previous OIG report entitled *DIRM Contracting Audit*, issued during March 1995. DIRM responded to that report and agreed to take actions to more clearly define contract SOWs. DIRM also indicated that, in the future, it would return contract solicitation packages with poorly defined SOWs to the FDIC organization that requested the services, and that it would develop a course on how to write comprehensive SOWs. Although DIRM developed a training course that included coverage of SOW preparation, based on the results of our current review, additional actions appear necessary to further address these concerns.

## **Recommendation**

We recommend that the Directors, DIRM and DOA:

- (1) Improve the SOW sections in DIRM service contracts and requirements definition in task assignments to more clearly and concisely define contract deliverables, including timeframes for delivery, resources required for completion, and priorities prior to contract award or task assignment issuance.

## **Policies and Procedures Regarding Contract Modifications**

ACSB can improve controls to limit the expansion of contracts after award. ACSB's APM Chapter 7.H contains guidelines when modifications to contracts are necessary. Those guidelines prescribe the procedures that should be followed when making both administrative and substantive changes. In addition, the APM requires a complete and approved justification for noncompetitive procurement if the contracting officer determines that a request for modification is not within the scope of work. However, DOA could enhance these procedures to ensure that contract modifications do not significantly expand the expenditure authority of DIRM contracts after award.

ACSB contracting officers used an informal method to determine whether to approve proposed contract modifications that expanded the value of a contract. Contracting officers compared the cumulative cost of the contract modifications to the initial contract amount and used an informal ACSB policy that limited the cumulative amount of modifications to 25 percent of the initial contract amount.

However, ACSB was not consistent in approving contract modifications. We reviewed all 291 open DIRM service contracts at headquarters and identified five contracts that contained modifications exceeding the 25 percent threshold. The five ACSB-approved modifications exceeded the original value of the contract by 29, 41, 89, 99, and 206 percent.

Contract modifications are written alterations to the contract terms and can include changes in the delivery point, rate of delivery, contract period, cost, quantity, or other provisions of an existing

contract. They result from planned actions, such as extension option or from unforeseen changes requiring the contracting officer to issue a change order pursuant to a change of condition.

Modifications that increase the value of contracts should be used judiciously and controls should be in place to limit contract modifications that significantly increase the value of contracts after award. Such controls are important to ensure accountability over the expenditure of IT resources. In addition, significant increases in value or scope may be more effectively addressed through a re-solicitation to ensure that the FDIC obtains the most favorable pricing and value possible. Without necessary controls, significant levels of services and related costs can be acquired without competition or assurance that the best services are acquired at the lowest costs.

### **Recommendation**

We recommend the Director, DOA:

- (2) Amend the APM to include policies and procedures that provide more detailed guidance regarding limitations over contract modifications that increase the value of a contract.

### **Monitoring Procurements Approved by the Board of Directors**

ACSB can improve controls to track the status of expenditure authorities for multiple contracts awarded as a result of cases approved by the Board of Directors (Board). We identified one instance where ACSB's need for improved controls contributed to contracting actions that differed from what the Board had approved.

The lack of accurate information on the status of expenditure authority granted through approved Board cases contributed to exceeding expenditure authority in March 1998 when ACSB executed contract options that exceeded the expenditure authority authorized. During our review, we provided information on this delegation exception and suggested that management implement more effective controls to ensure that the FDIC complied with expenditure limitations.

DOA needs to develop controls to ensure that the Board is notified when contract award amounts deviate from estimates that the Board relied upon in approving cases. For example, the Board approved a \$26 million case that estimated the award of ten contracts spanning a period of more than three years. DIRM provided individual estimates to the Board for each of the ten contracts with projected expenditure amounts for each year.

The APM, Section 4.I.2.e provides criteria as to when notification is required if the value of a contract award varies from the original approved expenditure authority. The policy provides for notification to the appropriate Deputy to the Chairman and the Board (if appropriate). Notification is required if the award amount exceeds approved expenditure authority by over \$250,000 for procurements up to \$5 million, and greater than 5 percent for procurements greater than \$5 million. The policy also requires explanation when the award amount was less than the approved amount by greater than \$1 million for procurements up to \$10 million, and greater than 10 percent for procurements over \$10 million.

The provisions of the policy provide adequate guidance for dealing with contract awards that deviate from the approved expenditure authority. However, ACSB did not have an effective methodology to alert officials when the contract award amount deviated from amounts approved by the Board. In addition, the policy cited in the APM, Section 4.I.2.e did not address the need for similar notification when modifications caused a contract to exceed the amounts approved by the Board.

DIRM and DOA stated that OMs and contracting personnel maintained informal manual records that tracked the actual award amounts to the approved Board case. However, a variety of ACSB and DIRM personnel were responsible for the multiple contracts awarded as a result of a Board case and may be unaware of restrictions or limitations imposed by the Board.

These control issues occurred, in part, due to FDIC's practice of aggregating requirements under one Board case to allow Board members to make expenditure decisions based on estimated costs for an entire program or function. ACSB and DIRM had packaged these multiple requirements into consolidated cases that were presented to the Board.

Improved mechanisms to track contract awards, subsequent modifications and expenditures, and their relationship to Board approvals can improve controls and reduce the opportunity for not adhering to approved expenditure limitations.

### **Recommendation**

We recommend the Director, DOA:

- (3) Develop the ability to monitor expenditure authority through the POS to ensure that proper notifications are made and approvals obtained when the value of contracts vary from the limits established in FDIC's APM.

### **Opportunities to Improve the Usefulness of Management Information**

ACSB needs to be able to rely on POS to accurately track the status of open and closed contracts. Our review showed, however, that POS identified contracts as open, although the contracts had expired at least 6 months earlier. In addition, DOA misclassified five DIRM service contracts, totaling \$7.1 million, as contracts for goods.

As of November 3, 1997, POS identified 77 of 402 (19.1 percent) DIRM service contracts as open although the contracts had been expired for at least 6 months. Twenty of the referenced 77 contracts were listed as having payments pending. While ACSB may have valid reasons for keeping contracts open when payments are pending, we believe that 6 months provides ample time to resolve most disputes. A follow-up analysis on October 20, 1998, revealed that DOA had made an effort to close out contracts on a more timely basis. However, 33 of 338 (9.7 percent) DIRM service contracts continued to be shown as open despite expiring at least 6 months earlier. Six of the 33 had pending payments against them.

We recognize the improvement that ACSB made in closing expired contracts in POS. However, we believe better controls and more timely action is needed to close out contracts that have expired and

that are no longer available for use. FDIC's payment systems permit the processing of payments against expired contracts that have not been closed in POS if funds remain. Additionally, management reports that are generated out of the POS would be more reliable and meaningful if expired contracts were removed in a more timely manner. DOA management officials indicated that contracting officers did not always close out contracts at the expiration date to allow for the processing of late billings. However, the officials stated that contracting officials now review contracting activity reports and close out contracts following passage of the recorded expiration date.

We also noted that a POS report misclassified five DIRM services contracts, totaling \$7.1 million as contracts for goods. We notified the responsible DOA contracting officers and they indicated that they would make the necessary corrections to reclassify the contracts as service contracts.

Contracts were not closed out in a more timely manner and contracts were miscoded in POS because ACSB had not established adequate controls that monitored the status of expired contracts and other data. A report that identified all expired contracts over 6 months old could improve ACSB's maintenance of information on the status of contracts. Improved edits that restrict the use of product service codes to either goods or services, but not both, could improve data integrity related to contract type.

## **Recommendations**

We recommend that the Director, DOA:

- (4) Ensure that expired contracts are closed out in POS in a more timely manner.
- (5) Implement manual or automated controls that limit the use of a product service code to either a contract for goods or for services.

## **Security Measures for Contractor Employees**

To help enhance security, the FDIC can improve controls to ensure that contractor employees meet the FDIC's suitability standards. Many of the FDIC's DIRM service contractor employees perform work on sensitive or mission critical FDIC systems and were issued credentials to access FDIC facilities. However, the FDIC did not consistently subject these individuals to a background investigation.

The FDIC maintained a database (PEGASYS) that accounted for all contractor employees that have been issued a FDIC access identification. Another database (OCOS-3) maintained and recorded the results of all background investigations started or completed for contractor employees. We compared the PEGASYS and OCOS-3 databases and identified that 1,542 of the 2,390 (65 percent) contractor employees who had been authorized to access FDIC facilities did not have a recorded background investigation either started or completed.

We also sampled contractor employees for 12 DIRM service contractors and 2 subcontractors from invoices that the contractors submitted for payment to determine whether FDIC had

completed or started a background investigation for these contractor employees. Fifty-one of the 88 (58 percent) contractor employees had not received a background investigation.

The provisions of 12 C.F.R. 366.2 and 366.4(a) prescribe the eligibility qualifications that individuals must meet before they can perform work on behalf of the FDIC. Specifically, the provisions of 12 C.F.R. 366.4(a) prescribe disqualifying conditions that if present would preclude an individual from doing any work for the Corporation directly or through any contractor or subcontractor it may employ.

In February 1997, the FDIC implemented a policy, requiring that all contractor employees receive a background clearance to obtain access to FDIC facilities. Contractor employees are required to provide fingerprints and to sign the appropriate forms granting the FDIC permission to conduct a background investigation when photographed for their access badge. Before August 1998, the FDIC did not have adequate controls in place to ensure that contractors certified that all employees and subcontractor employees meet FDIC's suitability standards as defined in the referenced statutes.

However, in August 1998, DOA amended the *FDIC ELIGIBILITY REPRESENTATIONS and CERTIFICATIONS* form that contractors were required to complete before performing work for the FDIC. These changes made it clear that all prospective contractor employees must meet FDIC suitability standards.

To ensure effective security, it is critical that the FDIC ensures the suitability of individuals accessing its facilities. The importance of such assurance is increased when these individuals are provided access and perform work on FDIC's most critical automated systems and related data, on-site or off.<sup>1</sup>

## **Recommendation**

We recommend that the Director, DOA:

- (6) Ensure that all DIRM service contractor employees have background investigations completed in a timely manner.

## **NEED TO ENHANCE PROCUREMENT POLICIES AND PROCEDURES**

The Corporation executed the 19 contracts in our sample in accordance with the policies and procedures contained in the APM and, in the case of large, complex IT MAS contracts, even went beyond the procurement policies and procedures that other federal agencies are required to follow. However, to improve competition for acquiring large service contracts, it would be in the Corporation's best interest to take existing controls a step further. We are suggesting ways to

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<sup>1</sup> On February 5, 1999, the OIG issued an audit report entitled *Audit of Food Services Contract With Aramark Services, Inc.* (Audit Report No. 99-009). This report addressed the need for background investigations for contractor employees who accessed FDIC facilities.

increase the numbers of bidders solicited; involve a source selection official; expand membership on TEPs; establish more reasonable timeframes for submission of bids; and seek alternative methods of encouraging MWOB participation. Taken together, these actions should improve competition and will better provide the control of segregation of responsibilities between the Office of Contracts and the program office during key phases of contract award and administration.

### **Identification of Firms Solicited**

ACSB did not actively participate in the selection and identification of vendors solicited for the contracts reviewed. Rather, ACSB relied on DIRM to provide suggested lists of vendors to solicit. By limiting the firms solicited to only those suggested by DIRM, DOA may have contributed to a reduction in the level of competition. The FDIC solicited four or fewer vendors for eight of the contracts reviewed. Of the 28 firms solicited for the referenced 8 procurements, only 15 submitted bids. FDIC received only one proposal for four of the eight procurements.

The APM states that contracting officers shall prepare a solicitation list identifying the firms to be solicited, identified by MWOB classification, and the rationale for selection. The list shall include firms provided by the Program Office, Office of Equal Opportunity (OEO), eligible firms from the National Contractor System (NCS), Commerce Business Daily, and other sources, at the direction of the contracting officer. These policies are applicable to the preparation of the solicitation list for both formal contracting and simplified procurements. FDIC's Contractor Performance Management System (CPMS) is an additional source that could be used to identify firms that could be solicited. The CPMS is used to track the performance ratings for all contracts over \$50,000.

Although ACSB policy provided for using multiple sources to develop solicitation lists, ACSB typically relied on the list provided by DIRM in their request for procurement services. Sixteen of the 19 contracts that we reviewed were awarded through the issuance of a solicitation to multiple vendors. ACSB relied on the vendor list submitted by DIRM for 12 of the 16 procurements without change.

While the principles of competition are achieved when multiple firms are solicited, the process is enhanced when proposals are submitted by a sufficient number of firms to permit a comparative evaluation of technical capabilities and cost. Receipt of multiple proposals in response to solicitations also helps FDIC ensure it is receiving the highest quality services at the lowest possible cost. Increasing the number of qualified firms solicited increases the opportunity for a greater response to solicitations.

## **Recommendation**

We recommend the Director, DOA:

- (7) Ensure that policy contained in the APM relating to preparation of solicitation lists is followed more effectively and that the NCS and the CPMS are used to augment the sources suggested by the requesting program office.

## **Need To Expand the Amount of Time Allowed for Bid Preparation**

ACSB can enhance the competitive process for major IT procurements by increasing the time for prospective offerors to prepare and submit proposals. Because of their complexity, responses to IT solicitations require thoughtful and innovative preparation. Increasing the time allotted for prospective offerors to prepare and submit proposals in response to such solicitations can increase the Corporation's ability to procure the highest quality service at the lowest possible cost.

Sixteen of the 19 contracts reviewed were awarded through competitive procedures and the issuance of solicitations. Eleven of the 16 solicitations allowed less than 20 calendar days for bid preparation and submission, including time for transmission. Three of these 11 solicitations allowed less than 12 days for bid preparation and submission.

We observed a correlation between the number of bids received and the length of time allowed for bid submission. For example, for the five solicitations that allowed more than 20 days for bid preparation and submission, 91 percent (21 of 23) of the firms solicited submitted proposals. Conversely, only 34 percent (11 of 62) of the solicited firms participated in the proposal process for the 11 contracts that allowed less than 20 days for bid preparation and submission. Further, only 23 percent (3 of 13) of the solicited firms responded to the three solicitations that provided less than 12 days for bid preparation and submission.

The compressed time frame allowed by ACSB for bid preparation and submission resulted, in part, because of DOA's desire to streamline the procurement process and provide services to users more quickly.

Federal Acquisition Regulation (FAR) 5.203c requires agencies to allow at least a 30-day response time for receipt of bids or proposals from the date of issuance of a solicitation, for open competitive procurements if the contract action is expected to exceed the simplified acquisition threshold (\$100,000). In addition, the FDIC's APM, Chapter 6.C.9, requires the contracting officer to consider the complexity of proposal preparation and allow adequate time for this purpose when using formal contracting procedures. The APM goes on to state that normally 20 to 30 days is considered a reasonable amount of time when formal contracting procedures are followed.

The FDIC is not bound by the FAR, and its formal contracting process is a more limited form of competition than that referenced in the FAR.

For simplified procurements, the APM also states "Firms shall be given sufficient time to prepare a response (usually between five (5) and ten (10) working days). More detailed requirements may require

longer proposal preparation times.” ASB had not established minimum time frames for bid submission on large, complex MAS competitive procurements.

ACSB indicated that it was not required by GSA procedures to solicit competition. However, ACSB implemented policies that require the FDIC to satisfy requirements that are similar but that go beyond what the FAR requires of other Government agencies that use the GSA’s MAS contracts. The FDIC requires a limited form of competition for FDIC contracts that exceed certain dollar thresholds. For example, FDIC contract awards to MAS contractors that are greater than \$100,000 but less than the MAS maximum order threshold, require the contracting officer to actively seek the best price by performing price comparisons between at least three MAS contractors offering the required product or service. Technical evaluations of contractors can also be performed but they are optional for contracts in this category.

ACSB policy required written proposals from at least three contractors for requirements that exceeded the maximum order threshold of MAS contracts. Technical evaluations of proposals were also required. When solicitations were issued, prospective bidders were encouraged to offer additional discounts from their MAS contract prices.

Because our audit showed that increasing the amount of time that a solicitation remains open increases the percentage of responses that are received, the Corporation should consider establishing a minimum timeframe for large complex procurements to encourage the greatest possible participation among the firms solicited. Limiting the response time for bid preparation to less than 20 days for large and complex DIRM service contracts can discourage prospective contractors from submitting proposals and reduces the FDIC’s ability to ensure that it receives the best value for the goods or services it acquires. While we understand that ACSB placed significant emphasis on delivery of contracts in shorter timeframes, we believe that increasing the response time for major IT-related solicitations would provide the FDIC with benefits that outweigh the delays encountered.

## **Recommendation**

We recommend that the Director, DOA:

- (8) Establish a minimum timeframe for bid preparation on large, complex MAS procurements and ensure that ACSB monitors the adequacy of responses obtained and adjusts the minimum timeframe as necessary.

## **Improving the Competitive Process**

FDIC can better ensure the competitive process by not disclosing solicitation lists. The contracting officer for three procurements in our sample provided bidders lists when one or more of the solicited firms requested the information. ACSB management officials stated that they generally approved of the release of solicitation lists as a way of encouraging MWOB firms to seek out partnering relationships with firms that had been solicited. One section of the APM permits the offeror to be provided a copy of the solicitation list upon request.

However, the competitive process works most effectively when prospective bidders are not aware of the identity of their competition. Release of this information can provide bidders with the identities of their competitors. This knowledge can lead to an understanding of the capabilities and capacities of their competitors that could result in reduced competition, particularly for procurements for which the FDIC conducts a limited competition by soliciting a small number of vendors. Release of this information can also create a potential for practices that would not be in the government's best interests, including collusion or price fixing.

ACSB stated that they were interested in exploring ways to increase the opportunity for MWOB firms to participate in FDIC procurements. To that end, ACSB works with the Office of Diversity and Economic Opportunity (ODEO) to ensure that an appropriate number of MWOB firms are included on solicitation lists. ACSB officials also stated they were interested in exploring other methods for encouraging MWOB firms to participate in FDIC procurements. One such method was providing solicitation lists to MWOB firms to facilitate partnering relationships between firms solicited and MWOB firms.

We acknowledge the benefits of increasing the participation of MWOB firms in FDIC procurements. However, ACSB should explore, with ODEO, alternative methods for improving the opportunities for MWOB firms to participate in FDIC procurements, such as including a list of MWOB firms to firms solicited or referring prospective offerors to ODEO to obtain information on MWOB firms with capabilities consistent with the nature of the service required.

### **Recommendation**

We recommend the Director, DOA:

- (9) Explore, with ODEO, alternative methods of encouraging MWOB firms to participate in FDIC procurements and amend the APM to discontinue the practice of releasing bidder lists for future competitive procurements.

### **Separation of Responsibilities**

A basic tenet of internal control is effective separation of responsibilities over the award and administration of contracts. In the case of the DIRM service contracts we reviewed, the program office was involved in all phases of the solicitation, award, and administration of service contracts supporting its operations. DIRM OMs prepared evaluation criteria, determined which vendors were solicited, and chaired TEPs that were assembled to evaluate the technical qualifications of firms submitting proposals. OMs were later responsible for managing the contractor's performance and approving contract deliverables and payments.

Sixteen of the 19 contracts we reviewed involved solicitations that were issued to multiple firms. Fourteen of these solicitations resulted in responses from at least two firms. Twelve of the 14 contracts had TEPs chaired by either the DIRM OM or the technical monitor for the contract. DIRM's OM also performed technical evaluations independently for 4 of the referenced 12 contracts.

DIRM's level of involvement in the award and administration of service contracts occurred because DOA officials did not believe that DOA possessed the technical expertise to question DIRM on technical matters. DOA intentionally allowed the DIRM's OMs to influence all phases of the procurement because it believed they were the best-qualified people with the greatest interest in ensuring that the most qualified contractor was selected. DOA confined the bidders lists to the firms suggested by DIRM in its request to DOA for acquisition services. ACSB officials advised that they permitted a departure from the three-member panels, as required by the APM, to one-member TEPs for procurements from GSA's MAS schedules. However, it was up to the ACSB contract specialist's discretion to require a TEP of more than one.

Basic internal control principles provide that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. No one individual should control all key aspects of a transaction or event. Accordingly, incompatible duties in the contracting process should be separated to better ensure that proposals are evaluated in a fair and consistent manner. Responsibility for developing evaluation criteria, determining the firms solicited, conducting the evaluation process, and overseeing and administering contracts should not be vested in the same person to reduce opportunities for or the appearance of conflicts of interest.

The FDIC's APM defines the roles and responsibilities for ACSB and program offices during the procurement process. ACSB has overall responsibility for contract administration, which includes coordination of the activities of all persons involved in the contracting process. ACSB is also responsible for selecting the firms solicited, and ensuring adequate competition and fair and consistent treatment of all firms solicited. In addition, ACSB is responsible for evaluating proposals to ensure the selection of the firm offering the best value to FDIC. Program offices, such as DIRM, are responsible for initiating requirements, developing SOWs, preparing FDIC cost estimates, and submitting requirement packages to ACSB. The program office also can play a role in the selection and evaluation process to ensure that the contractor selected is capable of meeting the needs of the FDIC.

While it is appropriate for DIRM to provide input in the solicitation, evaluation, and award processes, more effective controls are needed on large complex procurements to ensure that there is adequate separation of responsibility. Improved controls will also help to ensure there is not the appearance of or potential for a conflict of interest.

ACSB could enhance controls relating to separation of responsibilities for large DIRM MAS procurements by expanding the scope of its own policy governing when to use source selection procedures. The APM requires use of source selection procedures for any projected contract award of \$100,000 or greater and for commercial goods greater than \$5 million when formal competitive contracting procedures are followed. However, at the time of our review, source selection procedures were not required for procurements made under simplified procurement procedures, regardless of the dollar value, including MAS procurements.

Source selection procedures contained in the APM require the preparation of a Source Selection Plan (SSP). The SSP provides guidelines and a control mechanism for conducting the proposal evaluation and selection process. The APM states that the SSP contents can include the identity of a Source Selection Official (SSO), when the decision is made to establish such a position for an individual

procurement. The SSO's responsibility is to approve the SSP, ensure that the proposal evaluation process is conducted fairly, and to confirm the award recommendation made by the contracting officer.

## **Recommendations**

We recommend the Directors, DIRM and DOA:

- (10) Take steps to expand the use of source selection procedures to include large IT MAS service contracts. Specifically, measures should be put in place that provide for the use of a source selection official on large DIRM service contracts.

We recommend the Director, DOA:

- (11) Ensure that TEPs are comprised of at least three members for large procurements of IT services using MAS contracts when the estimated award value exceeds the maximum order threshold of the MAS contract.

## **CORPORATION COMMENTS AND OIG EVALUATION**

On September 13, 1999 the Directors, DIRM and DOA, provided a written response to the draft report. The response is presented in Appendix I of this report. Management agreed with all of the report's recommendations. A summary of management's responses to the recommendations contained in this report follows.

Management agreed with recommendation 1 and stated that a new SOW, emphasizing the use of task assignment (TA) documents, is now required for all future DIRM contracts, TAs will be reviewed by ACSB, and TAs will become part of the contract file. Management also stated that DIRM and DOA will provide additional training to OMs. Finally, DOA stated it would modify the APM to incorporate the use of TAs in FDIC contracts.

Management agreed with recommendations 2 and 3 and indicated that DOA would incorporate additional guidance in the APM to clarify the policy involving modifications that increase contract values. We continue to believe that DOA needs formal policies to ensure that modifications that increase the value of a contract are appropriately identified and approved. In addition, management indicated that ACSB's Quality Assurance Unit would track future expenditures and ensure that necessary notifications were made when the expenditure authority granted through Board cases was exceeded.

The Director, DOA, agreed with recommendations 4 and 5 and stated that DOA's Quality Assurance Unit had been assigned the responsibility to review weekly POS reports to ensure ACSB compliance with current policy. The Director also stated that the DOA Quality Assurance Unit would also be responsible for monitoring the accuracy of ACSB's assignment of product service codes.

Regarding recommendation 6, management stated it had implemented a new process for conducting background investigations, effective July 1999. Management also indicated that changes in the background investigation process would be incorporated in an upcoming APM revision.

DOA's initial response to recommendation 7 indicated that DOA did not believe it necessary to increase the number of firms solicited to more than three for large contracts using GSA's multiple award schedule contracts. DOA's September 13, 1999 response also did not address the audit concern that DOA relied excessively on DIRM to identify firms solicited for most of the large contracts we reviewed. However, in subsequent discussions, DOA officials indicated that in contracts issued over the past 12 months, DOA has generally solicited 6 to 8 firms for contracts that exceed the maximum order threshold for GSA schedule contracts. DOA also indicated that it now meets with DIRM prior to DIRM's submission of requests for procurement services. DOA management stated that during the pre-solicitation meetings with the program office, DOA participates in preparation of the bidders list.

Regarding recommendation 8, DOA management agreed with our recommendation and stated that it would collaborate with DIRM and establish a minimum timeframe for vendors to respond to FDIC solicitations.

DOA also agreed with recommendation 9 and stated that in February 1999 ACSB discontinued its practice of permitting the distribution of bidders lists. Additionally, DOA responded that dialog with ODEO has been ongoing to find new methods of stimulating MWOB participation in the procurement process.

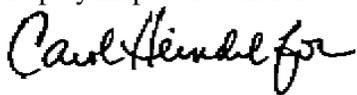
The Directors, DOA and DIRM, stated that they agreed with recommendation 10 and that they would expand the use of the source selection process to include large IT multiple award schedule service contracts. Regarding recommendation 11, the Director DOA stated she would also instruct COs and ACSB staff to convene 3-member TEPs for all MAS contracts that exceed the maximum order limitation.

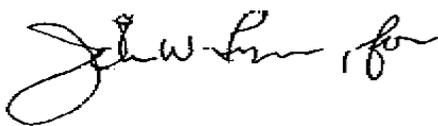
The Corporation's response to the draft report provides the elements necessary for management decisions on each of the report's recommendations. Accordingly, no further response to this report is required.

## CORPORATION COMMENTS

**FDIC**Federal Deposit Insurance Corporation  
550 17th Street, NW, Washington, DC 20429

**DATE:** September 13, 1999

**MEMORANDUM TO:** Steven A. Switzer  
Deputy Inspector General  


**FROM:** Donald C. Demitros  
Director, Division of Information Resources Management  
  
Arleas Upton Kea  
Director, Division of Administration

**SUBJECT:** MANAGEMENT DECISION  
Draft Report Entitled *Audit of the Award and Administration of DIRM Service Contracts*, Audit No. 97-910 dated July 30, 1999

The Division of Information Resources Management (DIRM) and the Division of Administration's (DOA) Acquisition and Corporate Services Branch (ACSB) have completed an evaluation of the Office of Inspector General (OIG) Draft Report No. 97-910 entitled "*Audit of the Award and Administration of DIRM Service Contracts.*"

The primary objectives of this audit were to determine whether (1) DIRM service contracts were executed in accordance with FDIC policies and procedures, (2) internal controls were designed to ensure that FDIC satisfied its requirements cost effectively, and (3) administrative controls were designed to ensure that contractor billings were properly supported and within the scope of the contract. The audit covered the period from March 1997 to April 1998. The OIG reported 11 recommendations dealing with contract policy and procedural issues. There were no questioned costs.

Our management decision is presented in two parts: the Executive Summary and the Management Decision detail. Our evaluation addresses the 9 audit findings and 11 recommendations presented in the report. Based on our preliminary review, corrective actions are required for all recommendations. Exhibit A summarizes the expected completion dates and the documentation that will confirm completion of the corrective actions.

If you have any questions concerning the management responses, please contact Mary Rann, Chief, Financial Review Group, at (202) 942-3287.

## **EXECUTIVE SUMMARY**

The following table presents an overview of the management decision. A more comprehensive summary of the decision that details specific areas of agreement or disagreement with each finding and describes necessary corrective actions, including milestone dates, is attached as Exhibit A.

Finding No.	Finding Description	Questioned Cost	Proposed Management Decision	Amount Disallowed	Amount Allowed
1	Contract statements of work and task assignments are not specific enough in defining contractor work requirements and deliverables.	-0-	Agree	N/A	N/A
2	Some contract modifications exceeded the 25 percent contract value permitted by ACSB policy guidelines.	-0-	Partially Agree	N/A	N/A
3	ACSB lacks a formal mechanism for tracking contract awards to ensure proper notifications and approvals are obtained when a contract total exceeds the original approved expenditure authority.	-0-	Agree	N/A	N/A
4	Closed contracts were not recorded timely in the Purchase Order System (POS). There were also several contracts incorrectly classified in POS.	-0-	Agree	N/A	N/A
5	Contractor personnel were working in FDIC facilities without the required background investigations.	-0-	Agree	N/A	N/A
6	FDIC did not use multiple sources to prepare solicitation lists for DIRM contracts as required by ACSB policy.	-0-	Partially Agree	N/A	N/A
7	Many contract solicitations did not allow a reasonable amount of time for companies to respond.	-0-	Agree	N/A	N/A
8	ACSB policy permitting disclosure of companies on the solicitation list can reduce competition and increase chances that companies might engage in practices that are not in the government's best interests.	-0-	Agree	N/A	N/A
9	Many DIRM service contracts had too much participation and influence by a single program person for technical evaluation as well as contract solicitation, award, and administration.	-0-	Agree	N/A	N/A
<b>TOTAL</b>		-0-		N/A	N/A

The nine audit findings summarized in the table above contain no questioned costs.

## **MANAGEMENT DECISION**

Reviewing the overall results of your audit, we are pleased that you found the Corporation executed all 19 contracts you reviewed in accordance with FDIC policies and procedures, and in the case of the large, complex information technology (IT) multiple award schedule (MAS) contracts, that the Corporation exceeded procurement requirements of other federal agencies. With respect to controls over contractor

billings, we acknowledge your finding for the same 19 contracts that invoices were properly supported and services were within the scope of the contract.

Following is a summary of the findings in your report and a consolidated DIRM/DOA management decision describing corrective action that addresses each of your recommendations.

### **FINDING #1: Statements of Work and Task Assignments Not Specific**

**RECOMMENDATION:** The OIG recommends that the Directors, DIRM and DOA improve the statement of work (SOW) sections in DIRM service contracts and requirements definition in task assignments to more clearly and concisely define contract deliverables, including timeframes for delivery, resources required for completion, and priorities prior to contract award or task assignment issuance.

**BACKGROUND:** The OIG found that FDIC did not adequately define its requirements or deliverables for 13 of the 19 contracts it reviewed. In 11 of these contracts, there was a requirement to use task assignments to further define its needs, but FDIC actually used them in only two of the contracts. The SOWs generally did not identify the systems to be addressed, describe the deliverables, or provide specifics regarding priorities or timeframes. The OIG concluded that FDIC is unable to measure contractor performance because of the poorly defined requirements and status reports that did not contain specific accomplishments.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendation.

DIRM has initiated several important actions that address the OIG concerns regarding the SOW and task assignment contracts (TA), and in concert with DOA, DIRM has taken additional actions that will improve overall contract oversight. DIRM issued a revised SOW shell document on March 29, 1999. This new document incorporates all the steps involved in the development of an IT system; and it includes the specific required tasks the contractor must perform during each phase. This new SOW, approved by ACSB, will be used for all future DIRM contract requirements and will emphasize the use of task assignment documents to better define such things as deliverables, completion schedules, and estimated labor charges. For future DIRM contracts, the signed TAs will be forwarded to ACSB where they will become part of the official contract file

DIRM contractors are required to submit monthly status reports. These reports have been modified to conform with the improved SOW requirements. Use of the revised status reports, combined with the task assignment documents, will enable the oversight manager (OM) to better monitor contractor progress and measure performance for assigned tasks.

In addition to the improvements in the SOW and TAs, ACSB and DIRM have combined to take additional actions to strengthen oversight and administration of DIRM contractors. Beginning in June 1999, the Divisions began training OMs in these changes and improvements. The Divisions conducted a seminar, attended by all OMs, that covered lessons learned, problems to avoid, and other DIRM-related contract administration issues. To communicate the recent contract changes, the Divisions developed a training course required for all OMs, that is scheduled to begin in September 1999. This course will provide additional instruction on SOW preparation and the use of task assignment contracts.

Lastly, ACSB will modify the Acquisition Policy Manual (APM) to establish corporation-level

procedures for using TAs as a method for acquiring goods and/or services under FDIC contracts.

**FINDING #2: Contract Modifications Exceeded Amounts Permitted by ACSB Policy**

**RECOMMENDATION:** The OIG recommends that the Director, DOA amend the APM to include policies and procedures that provide more detailed guidance regarding limitations over contract modifications that increase the value of a contract.

**BACKGROUND:** The OIG found that of the 291 open DIRM contracts, five (5) contained modifications that increased the cumulative cost of the contract after award in a range from 29 to 206 percent. These exceeded the existing informal ACSB policy limiting such increases to 25 percent. Based on these results, the OIG concluded that regarding DOA compliance with the informal policy, ACSB was not consistent in approving contract modifications. The OIG goes further to suggest that controls were not adequate to prevent these large increases in budget authorizations; and inadequate controls results in non-competitive purchases that may not be the best value for the Corporation.

**MANAGEMENT RESPONSE:** We agree with the recommendation.

Management agrees with the criteria asserted by the OIG stating that modifications that increase the value of contracts should be used judiciously and controls should be in place to limit significant increases in value of contracts after they are awarded. From the 291 DIRM contracts reviewed in the audit, we examined the five contract modifications that led OIG to the conclusion that DOA was inconsistent and somewhat less than judicious in its approval of price modifications, and that controls were not adequate in this approval process.

Two contracts (95-01218 and 95-02749) were awarded prior to the Acquisition Policy Manual (APM) and the Expenditure Delegations. Under these two contracts, the modifications in question were for pre-established option exercises. The earlier acquisition rules permitted budget authorization approvals using modifications at the time a contract option was exercised. In one example cited by OIG, the approved authorization of contract 95-02749 was \$215,000, the first year budget for the contract, as pointed out by the OIG. However, this was not the amount estimated or budgeted by FDIC to complete the work under this contract. In fact, the price schedule in the original contract contained budgeted costs for two one-year option periods, that included an additional \$204,487 in fixed price fees and fully burdened hourly rates for four different contractor employee categories for all three years of the contract. The OIG is correct that \$444,487 in budget authorizations for the second and third years of the contract was not officially approved until the contract options and modifications were exercised. However, those costs were anticipated in the original contract; and the modifications did not change the scope of work or the original cost estimates in the magnitude suggested in the OIG report. It is important to note that DOA complied fully with the existing acquisition policies for both these contracts.

The remaining three contracts involved increases that exceeded 25 percent of the original approved cost. We found evidence documented in the contract files that (a) requests were submitted along with justification from the program office for the proposed contract modifications, (b) the requests were reviewed by ACSB, and (c) management approved the requested contract modifications.

Review of the five contracts cited in the report led DOA management to conclude that modifications that result in substantial increases in contract values are not entered into lightly.

That is evidenced by OIG results showing only one percent (3 of 291) of the contracts involved price increases that exceeded 25 percent of the original contract value. In these three rare cases, the requests for increased funding were scrutinized by ACSB before approval; and when ACSB decided that a pricing modification would be in the best interests of the Corporation, each case was approved by an official with the appropriate delegated authority. In fact, the modification for contract 97-00544 was approved by the ACSB Associate Director, as well as the Corporation's Chief Financial Officer and Chief Operating Officer--evidence that internal controls to prevent unwarranted procurements were in place and functioning as intended.

Therefore, management disagrees with the OIG conclusions, but finds merit in its recommendation. DOA will provide additional guidance in the APM to clarify the policy related to modifications that increase contract values.

### **FINDING #3: ACSB Lacks Formal Mechanism for Tracking Contract Awards**

**RECOMMENDATION:** The OIG recommends that the Director, DOA develop the ability to monitor expenditure authority through the Purchase Order System (POS) to ensure that proper notifications are made and approvals obtained when the value of contracts vary from the limits established in FDIC's APM.

**BACKGROUND:** The OIG identified a March 1998 contract approved by the Board of Directors, in which ACSB exercised contract options that exceeded the original budget without notifying the Board or obtaining its approval. On the basis of this case, the OIG concluded that ACSB did not have adequate controls in place to track the status of Board case expenditures. These control weaknesses cannot ensure that differences between actual awards and Board-approved budgets are identified, and that proper notifications are made to the Board when any increases in contract authorizations occur.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendation. POS currently allows Contracting Officers to enter and track approved expenditure authorization against total dollars awarded under contracts. The APM has current policy in place which requires notification on high dollar awards when the contract amount is under or over (by established percentage) the approved expenditure amount. In support of this policy, ACSB established an internal Quality Assurance Unit that assists the contracting officers with monitoring expenditure authority requirements required by Board cases to ensure that expenditure authority is not exceeded without providing the required notification. ACSB will establish internal procedures to ensure that all Cases (when required) will be provided to the Quality Assurance Unit to track expenditures and ensure that proper and timely notifications are made.

### **FINDING #4: Contracts Were Not Timely or Correctly Recorded in POS**

**RECOMMENDATIONS:** The OIG recommends that the Director, DOA (4a) ensure that expired contracts are closed out in POS in a more timely manner, and (4b) implement manual or automated controls that limit the use of a product service code to either a contract for goods or for services.

**BACKGROUND:** The OIG found 33 of 338 DIRM service contracts service contracts being reported as open even though they had expired at least six months earlier. They also noted that five DIRM service contracts, totaling \$7.1 million were incorrectly classified in POS as contracts for goods.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendations.

As a general rule, DOA keeps contracts open 90 days beyond the expiration date to permit FDIC and the contractor sufficient time to make payment on final invoices, complete delivery on outstanding orders, and resolve any other audit or contract issues. In order to ensure that contracts are properly and timely closed out, ACSB created a Quality Assurance Unit assigned the responsibility of reviewing weekly POS reports to ensure DOA adherence to the 90-day timeframe.

DOA uses product service codes (PSC) to fulfill reporting requirements in and outside the Corporation; and we recognize that this information should be as accurate as possible. Therefore, based on the OIG finding, ACSB Unit Chiefs (Acquisition Section) will implement a manual review of all PSCs prior to the execution of a contract. In addition, the Quality Assurance Unit will be responsible for routinely checking the accuracy of this process.

#### **FINDING #5: Contractor Personnel Working Without Required Background Investigations**

**RECOMMENDATION:** The OIG recommends that the Director, DOA ensure that all DIRM service contractor employees have background investigations completed in a timely manner.

**BACKGROUND:** The OIG reported that 1,542 of the 2,390 (65 percent) contractor employees who had access to FDIC facilities did not have completed background investigations (BI) as required by FDIC policy and governing regulations. In addition, 51 of 88 (58 percent) of contractor employees for 12 DIRM service contractors and 2 subcontractors did not have the required background investigation.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendation. ACSB has implemented a new BI process that will satisfy the OIG's concerns in this area. This involves tightening and clarifying the BI policies and procedures (including standard contracting documents) and in headquarters, using the Policy and Training Unit to act as intermediary and the Quality Assurance Group to ensure that BIs are requested by the Contracting Officer and are provided to the Security Services Unit to conduct the review. Tracking and suspense systems are in place and this new process was operational in July, 1999. The new BI process will be incorporated in an APM revision. In the future, DOA will ensure that BIs are performed for all contractors that have either direct or remote access to FDIC facilities or information systems. Also, the OIG initiated an audit survey of these tracking and suspense systems in September 1999, that will evaluate the effectiveness of the new BI policies.

#### **FINDING #6: Multiple Sources Not Used to Prepare Solicitation Lists**

**RECOMMENDATION:** The OIG recommends that the Director, DOA ensure that policy contained in the APM relating to preparation of solicitation lists is followed more effectively and that the National Contractor System (NCS) and the Contractor Performance Management System (CPMS) are used to augment the sources suggested by the requesting program office.

**BACKGROUND:** The OIG found that in 8 of the 19 contracts reviewed, FDIC solicited four or fewer vendors. Furthermore, from a total of 28 solicitations in the 8 procurements, only 15 firms submitted bids; and in 4 of the 8 contracts, FDIC received only one proposal. Also, OIG noted that in 12 of 16 multiple solicitation procurements, ACSB relied exclusively on the list provided by DIRM.

The OIG suggests that there are too few vendors being solicited. Other sources such as the Office of Equal Opportunity, the NCS, and the Commerce Business Daily, and FDIC's CPMS are not being used to identify potential contractors, as provided for in the APM.

**MANAGEMENT RESPONSE:** We partially agree with the finding and recommendation.

The OIG correctly points out that the APM suggests that the contracting officer may use a variety of sources to identify potential vendors for inclusion on a solicitation list. We agree that the CO should give serious consideration to the use of other sources when FDIC uses a formal contracting process. However, that is not the case when the procurement is through the Federal Supply Schedule (FSS).

The General Services Administration (GSA) developed the FSS to simplify the purchasing process for commonly used goods and services in the federal government. Vendors on the schedule are already considered technically qualified to perform, and the GSA pricing is universally accepted to be competitively fair and reasonable. Therefore, under the FSS, soliciting a large number of firms will not provide an incremental benefit related to contractor qualifications or price. Seventeen of the 20 current DIRM service contracts over \$1 million, were FSS procurements. ACSB adopted, with Policy Memorandum 97-017, dated November 13, 1997, the GSA policy covering large awards under an FSS contract such as those sampled in the OIG audit. That policy requires DOA to solicit no fewer than three FSS contractors offering the required product or service; and DOA has complied fully with that policy.

To the extent the OIG recommendation refers to non-GSA purchases, Management agrees and will continue to emphasize to contracting officers (CO) the importance of using all available sources when developing a solicitation list to maximize competition for FDIC contracts. DIRM and DOA are applying marketing research analysis to help locate additional firms that have the skills to meet some of the unique requirements of the Corporation. Management is scheduling presentations by companies interested in IT contracting, and those meeting FDIC requirements are added to the NCS. This expansion of prospective contractors includes coordination with FDIC's Office of Diversity and Economic Opportunity (ODEO) to ensure there is a large pool of qualified minority and woman-owned business (MWOB) firms available that meet FDIC requirements.

#### **FINDING #7: Contract Solicitations Do Not Allow Sufficient Time To Respond**

**RECOMMENDATION:** The OIG recommends that the Director, DOA establish a minimum timeframe for bid preparation on large, complex MAS procurements and ensure that ACSB monitors the adequacy of responses obtained and adjusts the minimum timeframe as necessary.

**BACKGROUND:** The OIG reported that 11 of the 16 contracts competitively bid allowed less than 20 days for vendors to respond to a solicitation, a practice that does not, in their opinion, foster competition.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendation.

DOA has conducted most of its large IT service procurements against the GSA schedule. Companies listed on the schedule have already demonstrated their technical abilities to provide IT services. Because of this, FDIC requires less information from bidders than would be necessary under formal competitive procedures; and the capable firms solicited generally require less time to evaluate the FDIC requirements and submit proposals. We note that 10 of the 11 contracts allowing fewer than 20 days for response identified by the OIG were GSA procurements.

Based on prior experience, DOA considers 14 days sufficient response time in most GSA procurements, and has set that as an informal benchmark. The responsible CO reviews all large IT procurements and may adjust the timeframe depending on the complexity of the Corporation's requirements.

When DOA allowed at least 14 days to respond, more than 48 percent of the firms in the OIG sample, solicited under the GSA schedule, submitted proposals--a response rate that exceeds the government-wide average. However, that rate drops sharply to only 23 percent when DOA allowed less than 12 days for firms to respond. Based on these results, management acknowledges OIG's concern regarding the need for a minimum time to respond to our contract solicitations.

DOA will confer with DIRM management and will establish a minimum timeframe that will better enable vendors to respond to FDIC contract solicitations while recognizing the CO responsibility to weigh the complexity of contract requirements against the critical IT needs of the Corporation.

**FINDING #8: Disclosing Solicitation Lists Can Reduce Competition and Increase Risk to the Corporation**

**RECOMMENDATION:** The OIG recommends that the Director, DOA explore with ODEO, alternative methods of encouraging MWOB firms to participate in FDIC procurements and amend the APM to discontinue the practice of releasing bidder lists for future competitive procurements.

**BACKGROUND:** The OIG found that in three instances, FDIC provided bidder lists to other solicited firms when requested. OIG believes this practice restricts competition and creates an environment that is not in the best interests of the Corporation.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendation. The APM prohibits distribution of bidder lists. Notwithstanding this prohibition, ACSB waived the policy for about nine months beginning June 1998. The purpose of the waiver was to allow dissemination of bidder information to minority and woman-owned businesses (MWOB), to permit them an opportunity to offer their services to other prospective offerors as potential subcontractors. The waiver was removed in February 1999, reinstating the existing policy.

DOA remains committed to working with ODEO to stimulate MWOB and Small Disadvantage Business (SDB) participation in the FDIC procurement process. ACSB will provide the solicitation distribution list to ODEO and will modify the RFP document to instruct potential offerors and subcontractors to contact ODEO who will act as a clearinghouse for subcontracting opportunities and subcontractors for forming teams with prospective offerors on FDIC procurements. ACSB will monitor this process to ensure it is sufficiently generating subcontracting opportunities for SDBs and MWOBs.

**FINDING #9: Too Much DIRM Participation and Influence Over Contract Solicitation, Award, and Administration**

**RECOMMENDATIONS:** The OIG recommends that the Directors, DIRM and DOA (9a) take steps to expand the use of source selection procedures to include large IT MAS service contracts. Specifically, measures should be put in place that provide for the use of a source selection official on large DIRM service contracts. The OIG also recommends that the Director, DOA (9b) ensure that TEPs are comprised of at least three members for large procurements of IT services using MAS contracts when the estimated award value exceeds the maximum order threshold of the MAS contract.

**BACKGROUND:** The OIG reported that the program office was involved in the solicitation, award, and administration phases of the contracting process, objecting that this violates the basic tenet of internal controls--separation of responsibilities. The OIG faults the program office OMs for being too active in the evaluation of prospective contractors. Specifically, for 12 of 14 contracts involving multiple proposals, the

DIRM oversight manager or technical monitor chaired the Technical Evaluation Panel (TEP). The OM also prepared an evaluation in four of these contracts. In addition, ACSB permitted the DIRM OM or Technical Monitor to serve as a one-member TEP in four of the contracts reviewed.

**MANAGEMENT RESPONSE:** We agree with the finding and recommendations.

DOA and DIRM have used source selection officials for large, highly visible contracts to ensure the best contractor was chosen to support the Corporation's requirements. Management agrees with expanding the use of the source selection process to include larger IT multiple award schedule (MAS) service contracts.

Currently, the APM provides for this process only at the request of the client program office. The APM will be modified to better clarify the role and process for using a Source Selection Official (SSO). In addition, ACSB will explore the advantages and/or necessity of requiring SSOs for all large dollar value contracts in the future.

DOA also agrees with the OIG recommendation regarding the technical evaluation panel (TEP). Management will instruct all COs and ACSB staff to convene 3-member TEPs for all MAS contracts that exceed the Maximum Order Threshold.

cc: Deborah Reilly  
Janet Roberson  
Scott Miller  
Mary Rann  
Andrew Nickle  
Rack Campbell  
Richard Johnson

**EXHIBIT A**

<p><b><i>DIV. OF INFORMATION RESOURCES MANAGEMENT / DIV. OF ADMINISTRATION</i></b></p> <p><b>SUMMARY OF MANAGEMENT DECISION</b></p>
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NO.	FINDING DESCRIPTION	QUESTIONED COST	AMOUNT DISALLOWED	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
1	Contract statements of work and task assignments are not specific enough defining contractor work requirements and deliverables.	-0-	-0-	<p>Management agreed with the finding and recommendation.</p> <p>A new SOW, emphasizing the use of task assignment (TA) documents, is currently required for all future DIRM contracts; and the TAs will be reviewed by ACSB and become part of the contract file. DIRM and DOA will provide additional training to OMs. Also, ACSB will modify the APM to incorporating the use of TAs in FDIC contracts.</p>	Final Management Decision + 120 days	New SOW / Training Plan / APM Revision
2	Some contract modifications exceeded the 25 percent contract value permitted by ACSB policy guidelines.	-0-	-0-	<p>Management did not agree with the conclusion, but agreed with the recommendation.</p> <p>ASB will incorporate additional guidance in the APM to clarify the policy involving modifications that increase contract values.</p>	Final Management Decision + 120 days	APM Revision
3	ACSB lacks a formal mechanism for tracking contract awards to ensure proper notifications and approvals are obtained when a contract total exceeds the original approved expenditure authority,	-0-	-0-	<p>Management agreed with the finding and recommendation.</p> <p>ACSB's Quality Assurance Unit will track future expenditures and ensure that necessary notifications are made.</p>	Final Management Decision + 60 days	ACSB Memorandum

**EXHIBIT A (Con't)**

<b>SUMMARY OF MANAGEMENT DECISION</b>
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NO.	FINDING DESCRIPTION	QUESTIONED COST	AMOUNT DISALLOWED	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
4	Closed contracts were not recorded timely in the Purchase Order System (POS). There were also several contracts incorrectly classified in POS.	-0-	-0-	<p>Management agreed with the finding and recommendations.</p> <p>4a. DOA Quality Assurance Unit has been assigned the responsibility to review weekly POS reports to ensure ACSB compliance with current policy.</p> <p>4b. Quality Assurance will also be responsible for monitoring the accuracy of ACSB's assignment of PSCs.</p>	Final Management Decision + 90 days	ACSB Memorandum
5	Contractor personnel were working in FDIC facilities without the required background investigations.	-0-	-0-	<p>Management agreed with the finding and recommendation.</p> <p>ACSB implemented a new process for conducting background investigations effective July 1999. Changes in this process will be incorporated in an upcoming APM revision.</p>	Final Management Decision + 120 days	APM Revision
6	FDIC did not use multiple sources to prepare solicitation lists for DIRM contracts as required by ACSB policy.	-0-	-0-	<p>Management agreed with the finding and recommendation to the extent that it applies to non-FSS procurements.</p> <p>Management will continue to emphasize to COs the importance of using all available sources when developing a solicitation list. In addition, newly applied marketing research will be used to expand the number of firms on NCS.</p>	Final Management Decision + 90 days	ACSB Memorandum / Marketing research results

**EXHIBIT A (Con't)**

<b>SUMMARY OF MANAGEMENT DECISION</b>
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NO.	FINDING DESCRIPTION	QUESTIONED COST	AMOUNT DISALLOWED	DESCRIPTION OF CORRECTIVE ACTION	EXPECTED COMPLETION DATE	DOCUMENT VERIFYING COMPLETION
7	Many contract solicitations did not allow a reasonable amount of time for companies to respond.	-0-	-0-	Management agreed with the finding and recommendation. DOA will collaborate with DIRM and establish a minimum timeframe for vendors to respond to FDIC solicitations.	Final Management Decision + 120 days	APM Revision or ACSB Memorandum
8	ACSB policy permitting disclosure of companies on the solicitation list can reduce competition and increase chances that companies might engage in practices that are not in the government's best interests.	-0-	-0-	Management agreed with the finding and recommendation. In February 1999, ACSB discontinued its temporary waiver of APM allowing the distribution of bidder lists. Dialog with ODEO has been ongoing to find new methods of stimulating MWOB participation in the procurement process.	Final Management Decision + 120 days	Revised RFP / ACSB Memorandum
9	Many DIRM service contracts had too much participation and influence by a single program person for technical evaluation as well as contract solicitation, award, and administration.	-0-	-0-	Management agreed with the finding and recommendation. 9a. Management will expand the use of the source selection process to include large IT multiple award schedule service contracts. 9b. Management will also instruct COs and ACSB staff to convene 3-member TEPs for all MAS contracts that exceed the maximum order limitation.	Final Management Decision + 120 days	9a. APM Revision / 9b. ACSB Memorandum
<b>Totals</b>		<b>-0-</b>	<b>-0-</b>			

**MANAGEMENT RESPONSES TO RECOMMENDATIONS**

The Inspector General Act of 1978, as amended, requires the OIG to report on the status of management decisions on its recommendations in its semiannual reports to the Congress. To consider FDIC’s responses as management decisions in accordance with the act and related guidance, several conditions are necessary. First, the response must describe for each recommendation

- the specific corrective actions already taken, if applicable;
- corrective actions to be taken together with the expected completion dates for their implementation; and
- documentation that will confirm completion of corrective actions.

If any recommendation identifies specific monetary benefits, FDIC management must state the amount agreed or disagreed with and the reasons for any disagreement. In the case of questioned costs, the amount FDIC plans to disallow must be included in management’s response.

If management does not agree that a recommendation should be implemented, it must describe why the recommendation is not considered valid.

Second, the OIG must determine that management’s descriptions of (1) the course of action already taken or proposed and (2) the documentation confirming completion of corrective actions are responsive to its recommendations.

This table presents the management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management’s written response to our report and subsequent discussions with management representatives.

Rec. Number	Corrective Action: Taken or Planned / Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	Management agreed with the finding and recommendation.  A new SOW, emphasizing the use of task assignment (TA) documents, is currently required for all future DIRM contracts; and the TAs will be reviewed by ACSB and become part of the contract file. DIRM and DOA will provide additional training to OMs. Also, ACSB will modify the APM to incorporating the use of TAs in FDIC contracts.	1/13/00	New SOW; Training Plan; APM Revision	N/A	Yes
2	Management did not agree with the conclusion, but agreed with the recommendation.  ASB will incorporate additional guidance in the APM to clarify the policy involving modifications that increase contract values.	1/13/00	APM Revision	N/A	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
3	Management agreed with the finding and recommendation.  ACSB's Quality Assurance Unit will track future expenditures and ensure that necessary notifications are made.	11/15/99	ACSB Memorandum	N/A	Yes
4	Management agreed with the finding and recommendation.  DOA Quality Assurance Unit has been assigned the responsibility to review weekly POS reports to ensure ACSB compliance with current policy.	12/13/99	ACSB Memorandum	N/A	Yes
5	Management agreed with the finding and recommendation.  Quality Assurance will also be responsible for monitoring the accuracy of ACSB's assignment of PSCs.	12/13/99	ACSB Memorandum	N/A	Yes
6	Management agreed with the finding and recommendation to the extent that it applies to non-FSS procurements.  Management will continue to emphasize to COs the importance of using all available sources when developing a solicitation list. In addition, newly applied marketing research will be used to expand the number of firms on NCS.	1/13/00	ACSB Memorandum and Marketing research results	N/A	Yes
7	Management agreed with the finding and recommendation.  Management will continue to emphasize to COs the importance of using all available sources when developing a solicitation list. In addition, newly applied marketing research will be used to expand the number of firms on NCS. In addition COs meet with program office officials and assist in the preparation of the bidder list. For requirements exceeding the maximum order threshold on GSA Schedule contracts, DOA indicated in discussions with them subsequent to receipt of their response to the draft report, that they reviewed GSA procurements over the past year and found they generally ensure that at least 5 – 8 firms are solicited.	12/13/99	ACSB Memorandum Plus Marketing research results	N/A	Yes

Rec. Number	Corrective Action: Taken or Planned / Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
8	<p>Management agreed with the finding and recommendation.</p> <p>In February 1999, ACSB discontinued its temporary waiver of APM allowing the distribution of bidder lists. Dialog with ODEO has been ongoing to find new methods of stimulating MWOB participation in the procurement process.</p>	1/13/00	Revised RFP and ACSB Memorandum	N/A	Yes
9	<p>Management agreed with the finding and recommendation.</p> <p>In February 1999, ACSB discontinued its temporary waiver of APM allowing the distribution of bidder lists. Dialog with ODEO has been ongoing to find new methods of stimulating MWOB participation in the procurement process.</p>	1/13/00	Revised RFP and ACSB Memorandum	N/A	Yes
10	<p>Management agreed with the finding and recommendation.</p> <p>Management will expand the use of the source selection process to include large IT multiple award schedule service contracts.</p>	1/13/00	APM Revision	N/A	Yes
11	<p>Management agreed with the finding and recommendation.</p> <p>Management will also instruct COs and ACSB staff to convene 3-member TEPs for all MAS contracts that exceed the maximum order limitation.</p>	1/13/00	ACSB Memorandum	N/A	Yes